

Housing Trust Fund

**Operating and
Maintenance Fund**

**Guidelines and
Application**

Fall 2002

CHAPTER 8

OPERATING AND MAINTENANCE FUND

Section 800 Background and Purpose

The 2002 Washington State Legislature passed SHB 2060 that requires county auditors to charge a ten-dollar recording fee on all recorded documents with the exception of those previously excluded from any fees. A portion of the revenue from the fees is deposited into the Washington Trust Account (Housing Trust Fund).

The purpose of the funds is to support operations and maintenance costs of housing projects or units within housing projects that are affordable to extremely low-income persons with incomes at or below thirty percent of the area median income and that require a supplement to rent revenue to cover ongoing operating expenses.

The Operating and Maintenance Fund (O&M Fund) is part of the Housing Trust Fund (HTF) and will be used to support new projects receiving capital dollars from the HTF.

The legislation charged the Washington State Department of Community, Trade and Economic Development (CTED) with the responsibility of administering the O&M Fund. The Housing Finance Unit (HFU) in the Housing Division of CTED will administer the O&M Fund.

Except as otherwise noted in this application, the Housing Trust Fund (HTF) Guidelines and Procedures Handbook will apply to the O&M Fund. **However, these guidelines do not govern the portion of the revenue that is set aside for costs of the Emergency Shelter Assistance Program (ESAP).** Refer to WAC 365.120 for rules governing the ESAP.

Section 801 Program Focus

It is estimated that approximately \$2.5 million of HTF O&M Funds will be available in State Fiscal Year 2003 (July 1, 2002 – June 30, 2003) to organizations eligible to receive funds from the HTF. CTED intends to support eligible projects at no more than \$50,000 per year for not more than 10 years. Subsidy amounts will be based on applicant demonstration of need and the costs for comparable projects. HFU 's goal is to ensure the geographic distribution of funds to a mix of extremely low-income households.

Section 802 Eligible Projects

New projects developed using HTF capital dollars that provide housing to extremely low-income households. To be eligible for O&M funds, units must be occupied by households that have incomes equal to or less than 30 percent of the area median income (as adjusted for household size).

HFU will consider the option to waive the new project requirement, if all private and public debt repayment has been eliminated AND any asset management issues are reviewed and resolved.

Section 803 Eligible Applicants

All organizations listed in the HTF Guidelines and Procedure Handbook Chapter 202.1, Eligible Applicants.

Section 804 Geographic Distribution of Funds

Funds will be distributed geographically using the same percentage goals that are established for the HTF. For Fall 2002, this will be King County, 40 percent; Urban Non-King counties, 30 percent; Rural counties, 30 percent.

Section 805 Funding Limits

In order to provide opportunities for as many projects as possible to be funded with the projected revenue, maximum funding will be no more than \$50,000 per project per year for up to a maximum of 10 years.

Section 806 Tenant Rents

Eligible households will pay no more than 30 percent of adjusted monthly gross income for rent and any allowable tenant-paid utilities associated with a project. Contractors may request alternate rent schedules to meet unique program objectives; specific requirements will be outlined in contracts. Annual project budgets should reflect estimated rental income based on program design unique to each project.

Household income is to be reviewed annually and the project contractor may adjust rental payments accordingly. If a household's income changes prior to the annual review (due to loss of a job, addition of a household member, death of a household member, etc.), rents can be adjusted accordingly.

Some households may have little or no income when first moving into housing. In these instances, the minimum rent may be waived or reduced until the household qualifies for public assistance or becomes employed. At the annual review, the subsidy amount may be adjusted if it is found that tenants are able to pay rent earlier than projected.

Section 807 Adjustments to Gross Income

When determining rents, contractors will use the existing methodologies for adjusting gross income using HUD's "Technical Guide for Determining Income and Allowances for the HOME Program". In addition to the HUD methodologies, the following adjustments may be used:

- For a household having medical expenses in excess of three percent of their annual income, gross income can be adjusted by the amount in excess of three percent. These expenses can also include non-medical expenses for the assistance and care of household members who are handicapped or disabled.

- The amount for child care (for children under 13 years of age) when it is necessary for the employment of an adult household member, or for his or her further education. The estimated cost of care can be deducted from gross income. The amount must reflect the reasonable cost of care and cannot exceed household income.

Section 808 Non-Subsidized Units

When a household subsidized by the HTF O&M Fund has an increase in income greater than 30 percent of the area median income, the unit is no longer eligible to receive subsidy. At the annual review, subsidy would be discontinued and the subsidy to the project adjusted accordingly. The household earning over 30 percent of the area median income may have an adjustment to its rent depending on the project's current operating expenses.

Section 809 Tenant-Paid Utilities

If the cost of utilities is not included in the tenant rent but is the responsibility of the household occupying the unit, an amount equal to the estimate made or approved by the local Public Housing Authority (PHA) is subtracted from the total tenant payment to produce the monthly rent the tenant would pay the contractor. In this situation, tenants would be responsible for paying their utilities directly, regardless of the amount.

Section 810 Management Plan and Maintenance Plan

A management plan is required for each application for the O&M Fund. The plan must be consistent with the guidelines in the Handbook Chapter 205.4. HFU recommends using the Local Initiatives Support Corporation (LISC) Build a Manual Software Series "Property Management Operating Procedures".

Additionally, each project must have a maintenance plan that describes how the building will be maintained. It should describe the acceptable condition for each room (living room, bathroom, kitchen, bedroom), common space (hallways, stairs, lobby), building systems (heating and plumbing), and building exterior (roof, walls, foundation, chimney). It should also include a schedule for both exterior and interior maintenance of the building. For example, maintenance standards for interior stairs could be that the stairs have lights that work, and the railings be safe and in good condition. The plan must also describe how long term maintenance will be accomplished.

Section 811 Operating Budget and Use of Funds

An operating budget in the required format must be submitted with each O&M Fund application for subsidy. (See HTF Guidelines and Procedures Handbook, Chapter 304.6 and Exhibit 3-9). For the annual review, an actual financial statement for the previous year and a proposed operating budget for the following year will be required. The budget must be based on the State's fiscal year, which begins July 1 unless the recipient receives written permission from HFU to use a different fiscal year.

Eligible uses of O&M Fund include costs for:

- On-site salaries and benefits including all personnel costs directly associated with operating the building.
- Off-site management including overhead and personnel costs that are necessary to operate the building but are not located at the site.
- The cost of a financial audit in relation to the total HTF investment in the project.
- Administrative expenses such as legal, advertising and marketing, insurance, collection loss, property and personal property taxes.
- On-going maintenance expenses such as materials, janitorial supplies, maintenance contracts, security and other maintenance expenses.
- Contractor paid utilities specific to the project.
- Replacement Reserve additions, which are funds set-aside for the replacement of or major repair work on the component systems of a housing facility. The amount to be deposited in the replacement reserve account should be based on a capital needs assessment and on the analysis of all facility systems that will wear out over the life of the project, and the estimated costs of repairing and replacing those systems when they wear out. Long-term maintenance as well as replacement costs include such items as major repairs to or replacement of appliances and major fixtures, plumbing and heating systems and re-roofing. Short-term maintenance needs, such as periodic replacement of floor coverings, repainting units and general cleaning, should be budgeted through standard maintenance funds, not replacement reserve funds.
- Operating reserve additions budgeted each year to cover unforeseen operating costs. The amount is normally to be 3 months of all expenses during the first year of operations, except long-term replacement reserve items. The reserve will be allowed to accumulate until the amount is equal to 50 percent of a year's budget for operating costs. The operating reserve may also be used to pay for work which can not be entirely funded by the maintenance reserve. As part of the management plan, each contractor must provide their policy, including procedures and eligible costs, for how operating reserve funds may be spent. The requirements and limits on replacement and operating reserves may be adjusted periodically, and/or for specific projects, by the HFU based on a review of the capital needs and operating risks of projects and of other public funder standards.
- The O&M Fund will not subsidize public or private lender debt service (including interest) or the costs of social services.

Section 812 Project Selection

In response to the Fall 2002 HTF application, applicants will submit proposals for O&M Fund subsidy along with their application for the HTF. Application requirements for the O&M Fund will be included with the HTF application.

The project review process considers the following project characteristics:

- HTF criteria found in Chapter 2 of the HTF Guidelines and Procedures Handbook. Projects applying for O&M Funds must also be projects applying concurrently to the

HTF unless a waiver has been granted to previously funded projects as described in Section 802.

- The reasonableness of the proposed operating budget;
- The amount of other operating support funds leveraged by the project including federal, other state and local support.
- The adequacy of the management plan for the proposed tenant population and building, and the experience of the contractor;
- The scope of the project design and whether the work uses sustainable construction materials and methods;
- The adequacy of the maintenance plan in maintaining the building and preventing long-term maintenance problems;
- O&M Fund assisted units may not have debt service. Units not assisted with O&M funds in mixed income projects may have debt service.

Section 813 Subsidy Term

HFU will commit up to 10 years of an O&M Fund subsidy for a project. Funding will begin on the date of project completion. O&M Fund awards are subject to availability of funding and to annual reviews that may result in adjustments to subsidy amounts or discontinuance of subsidy, in the discretion of HFU. For example, subsidies to HTF units may be reduced or discontinued if increasing revenues from other housing units, commercial space, or alternative subsidy sources are available to a project, or if insufficiency of currently available or projected HTF resources requires HFU to prioritize among projects receiving subsidy.

Section 814 Annual Reviews

HFU will conduct financial, management, operations, and maintenance reviews of projects receiving O&M Fund subsidy each year based upon material from the HTF annual report. HFU will also review the project and determine the subsidy amount for the following year. For the annual review, the contractor must provide the following materials that include but are not limited to:

- An actual financial statement, and audit, if applicable, for the project compared with the operating budget. The statement should include cumulative balances for replacement and operating reserves.
- The existing tenant profile including rental amounts charged and tenant income.
- Phased rehabilitation work planned for the next year, if any, and the source of funds for the work.
- Long-term maintenance work planned for the next year, if any. Schedule for periodic completion of a capital needs assessment that includes a life cycle cost analysis for the major building components and a 20 year schedule of replacement reserve deposits and expected expenditures.
- An operating budget for the next year with the projected monthly rent-up schedule.
- A narrative report explaining how the subsidy received in the prior year and the subsidy requested for the next year will allow the contractor to meet its subsidy goal for extremely low-income households.

Section 815 Subsidy Payments and Adjustments

The amount and the conditions for annual use of the subsidy will be negotiated between HFU and the contractor, and established in an annual contract amendment. The amount of subsidy spent each year will depend on the operating budget and can not exceed the approved annual amount. Contractors will be required to provide quarterly financial reports

Definitions

Affordable Housing - When a household's rent and utility costs do not exceed 30 percent of the monthly income for the targeted income group as adjusted for household size.

Area Median Income - Median family income for the county or PMSA where the project is located and adjusted for family size.

Capital Needs Assessment - A document completed by a professional third party that defines what a project's immediate and long-term capital needs are and provides a plan for financing such needs.

Child Care Expenses - The lesser of :

- 1) The estimated reasonable costs of child care for children under 13 years of age when it is necessary for the employment of an adult household member, or for his or her further education.

or

- 2) Gross Income.

Contractor - An organization that has a contract to receive funding from the HFU to develop and operate housing for low-income households.

Debt Service - Payments to lenders for funds borrowed for projects.

Eligible Costs - For any period means the reasonable operating costs of the O&M units properly attributable to such period, limited to the types of costs specified in the O&M Fund Guidelines.

Extremely Low Income Households - Households earning 30 percent of the area median income or less.

Gross Income - includes a household's earned income, income from assets and income from other sources as defined by 24 CFR Part 83.

HFU - The Housing Finance Unit in the Housing Division of the Department of Community, Trade and Economic Development.

Household - One or more persons inhabiting a housing unit as their principal residence.

Life Cycle Cost Analysis - A document, prepared by a professional third party that estimates the remaining useful life of all building components and equipment. The estimated useful life estimates must come from a nationally recognized organization such as Marshall and Swift.

Medical and Disability Expenses - A household's unreimbursed medical expenses and unreimbursed expenses for the assistance and care of household members who are handicapped or disabled, all as estimated for the next twelve months.

Operating Budget - For any period means the budget for property operations submitted by the applicant to HFU for the purposes of the contract for that period as approved by HFU with any modifications required or approved by HFU.

Rent - All charges for use and occupancy of the property payable by or on behalf of a household occupying a unit, whether or not such amounts are technically "rent" under landlord-tenant laws.

Tenant - The person or persons occupying a unit, whether or not they are tenants as defined under applicable laws.

Utility Allowance - If utilities are paid directly by the resident, the rent must include a utility allowance according to the schedule established and provided by the local housing authority. The utility allowance schedule must estimate the average monthly cost of utilities (except telephone) for each unit type (single family, apartment, duplex, manufactured housing, etc.)